

Report of the auditor-general to the Limpopo provincial legislature and the council on Waterberg District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Waterberg District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and of the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Waterberg District Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding amounts

8. As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of an error discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material impairments

9. As disclosed in note 24 to the financial statements, material impairment to the amount of R1 662 872 has been recognised as a result of liquidity of the service provider.

Material underspending of the budget

10. As disclosed in Annexure A1 and A2 to the financial statements, the municipality has materially underspent its expenditure and capital budget to the amount of R31 260 742 and R1 814 747 respectively. As a consequence, the municipality has not achieved some of its objectives as set out in its performance report.

Irregular expenditure

11. As disclosed in note 34.2 to the financial statements, irregular expenditure to the amount of R4 450 901 were incurred as a result of payments made in contravention of the supply chain management requirements.

Additional matter

12. I draw attention to the matters below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the Waterberg District Municipality for the year ended 30 June 2015:
- Development priority : Basic services on pages x to x
 - Development priority : Local economic development on pages x to x
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. The material findings in respect of the selected development priorities are as follows:

Usefulness of reported performance information

21. I did not identify material findings on the usefulness of the reported performance information for the following development priorities:
- Development priority: Basic services
 - Development priority: Local economic development

Reliability of reported performance information

Development priority: Basic services

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Due to inadequate systems I was unable to place reliance on the validity, accuracy and completeness of the reported performance for basic service delivery. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and differences identified between the reported performance information. The municipality's records did not permit the application of alternative audit procedures.

Development priority: Local economic development

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Due to inadequate systems I was unable to place reliance on the validity, accuracy and completeness of the reported performance for local economic development. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and differences identified between the reported performance information. The municipality's records did not permit the application of alternative audit procedures.

Additional matters

24. I draw attention to the following matters

Achievement of planned targets

25. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the reliability of the reported performance information for the selected development priorities reported in paragraphs 18 to 20 of this report.

Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for Basic service and Local economic development of development priorities. As management subsequently corrected only some of the misstatements, I identified material findings on the reliability of the reported performance information.

Compliance with legislation

I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My

material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance and annual reports

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements on commitments note identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified opinion.
28. The oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013/14 annual report was tabled, as required by section 129(1) of the MFMA.

Strategic planning and performance management

29. The municipality did not implement a framework that describes and represents how the municipality cycle and process of performance planning monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of different role players as required by sections 38, 39, 40 and 41 of the MSA read with regulations 7 and 8 of the Municipal Planning and Performance management regulations.
31. The annual performance report for the year under review did not include measures taken to improve performance as required by section 46(1)(c) of the MSA.

Procurement and contract management

30. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and Supply Chain Management (SCM) regulation 28(1)(a)
31. Contracts were awarded to bidders based on points given for criteria that differed from those in the original invitation for bidding and, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.

Expenditure management

32. Effective steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

- 34. The municipality has not implemented sufficient monitoring controls to ensure accurate reporting on performance objectives.
- 35. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting and compliance with certain laws and regulations.

Financial and performance management

- 36. The financial statements and reported performance information contained a number of misstatements that were corrected. This is mainly due to inadequate review by management.

Governance

- 37. The reported performance information contained a number of targets where the reported performance of the district municipality does not agree with the audit evidence submitted for audit purposes. This was mainly due to inadequate review by internal audit.
- 38. Audit committee should have guided internal audit to focus on performance information, as a result internal audit did not audit both mid-year and annual performance reports.

Auditor General
Polokwane

30 November 2015



AUDITOR - GENERAL
SOUTH AFRICA

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